

**REPORT OF THE AUDIT OF THE
JACKSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE JACKSON COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the Jackson County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$471 from the prior year, resulting in excess fees of \$379 as of December 31, 2006. Revenues increased by \$7,365 from the prior year and expenditures increased by \$7,836.

Report Comments:

- The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William O. Smith, Jackson County Judge/Executive
The Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Jackson County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable William O. Smith, Jackson County Judge/Executive
The Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Jackson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

October 19, 2007

JACKSON COUNTY
TIM FEE, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

Federal Grants		
Forestry	\$ 7,100	
Appalachia High Intensity Drug Trafficking Area (HIDTA)	<u>54,968</u>	\$ 62,068
State - Kentucky Law Enforcement Foundation Program Fund		10,407
State Fees For Services:		
Finance and Administration Cabinet		4,046
Circuit Court Clerk:		
Sheriff Security Service		7,196
Fiscal Court		1,300
County Clerk - Delinquent Taxes		1,372
Commission On Taxes Collected		82,517
Fees Collected For Services:		
Auto Inspections	2,170	
Accident and Police Reports	227	
Serving Papers	10,035	
Carrying Concealed Deadly Weapon Permits	<u>9,000</u>	21,432
Other:		
Highway Safety Program	53	
Add-On Fees/Advertising Fees	25,146	
Miscellaneous	<u>966</u>	26,165
Interest Earned		<u>335</u>
Total Revenues		216,838

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY

TIM FEE, SHERIFF

STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 24,976

Part-Time Salaries 13,605

Other Salaries 13,364

Overtime Salaries 8,745

KLEFPF Salaries 6,327

Employee Benefits-

Employer Paid Health Insurance 498

Contracted Services-

Advertising 127

Materials and Supplies-

Office Materials and Supplies 3,723

Uniforms 8,415

Auto Expense-

Gasoline 28,066

Maintenance and Repairs 9,125

Other Charges-

Conventions and Travel 945

Dues 330

Postage 705

Carrying Concealed Deadly Weapon Permits 8,545

Miscellaneous 791

Capital Outlay-

Equipment 10,312

Vehicles 5,500

Debt Service

Vehicle Note 3,118

Total Expenditures \$ 147,217

Less: Disallowed Expenditures 99Total Allowable Expenditures 147,118

Net Revenues 69,720

Less: Statutory Maximum 69,341Balance Due Fiscal Court at Completion of Audit* \$ 379

*Note - On October 19, 2007, the Sheriff personally reimbursed the 2006 fee account \$99 for disallowed expenditures and paid the Fiscal Court \$379 for 2006 excess fees.

The accompanying notes are an integral part of this financial statement.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Note Payable

On June 30, 2003, the Jackson County Sheriff entered into a loan agreement with Citizens Bank for the purchase of a cruiser. The original principal balance of the loan was \$16,600 and the interest rate was 7.9%. The terms of the loan required 36 monthly payments of \$519.52 to be paid in full on June 30, 2006. During calendar year 2006 the Sheriff paid all remaining principal and interest payments of \$3,047 and \$70, respectively, which satisfied the terms of the loan.

JACKSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 5. Grants

A. High Intensity Drug Trafficking Area Grant

During 2006, the Sheriff's office received an Appalachia High Intensity Drug Trafficking Area (HIDTA) grant from the Office of National Drug Control Policy to supplement salaries and purchase gasoline in an effort to curb illegal drug related activities in Appalachia. The Sheriff received and disbursed \$54,968 during the year.

B. Governor's Highway Safety Program Grant

The Jackson County Sheriff's Office was awarded a Governor's Highway Safety Program grant through the Kentucky State Police and the Commonwealth of Kentucky. The grant provides funding for equipment and personnel in order to decrease the number of fatal and serious injury crashes due to speeding, impaired driving, driver inattention, and lack of seatbelt usage. During 2006, the Sheriff received and expended \$53. All funds were expended to fund personnel activities such as overtime, and patrolling. The grant ended September 30, 2006.

C. Forestry Grant

The Jackson County Sheriff's office entered into a Cooperative Law Enforcement Agreement with the U.S. Department of Agriculture, Forest Service, and Daniel Boone National Forest on April 1, 2005. The agreement states that the Sheriff's office can obtain reimbursement for patrolling activities in the Daniel Boone National Forest in an effort to reduce illegal activity on federal land. During 2006, the Sheriff received and expended \$7,100.

D. Kentucky Law Enforcement Foundation Program Fund

The Jackson County Sheriff's Office was awarded a grant under the Kentucky Law Enforcement Foundation Program Fund (KLEFPF) from the Commonwealth of Kentucky Department of Criminal Justice Training. Under the program, an eligible officer is entitled to receive up to \$3,100 annually as provided in KRS 15.460. The Sheriff received and expended \$10,407 during the year.

Note 6. Forfeiture Account

The Sheriff maintains an account for the purposes of receiving assets forfeited to the Commonwealth as a result of legal proceedings. Expenditures from this fund are to be for law enforcement activities. The beginning balance in the Forfeiture Account was \$254. During 2006, the Sheriff received \$20,446 in forfeited funds and expended \$7,473 on an equipment purchase, leaving an ending balance of \$13,227 as of December 31, 2006.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William O. Smith, Jackson County Judge/Executive
The Honorable Tim Fee, Jackson County Sheriff
Members of the Jackson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Jackson County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated October 19, 2007. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Jackson County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jackson County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Jackson County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Jackson County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only

The Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Jackson County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 19, 2007

COMMENTS AND RECOMMENDATIONS

JACKSON COUNTY
TIM FEE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2006

STATE LAWS AND REGULATIONS:

The Sheriff Should Spend Fee Account Monies For Allowable Purposes Only

During our testing of the Sheriff's fee account for 2006, we have identified \$99 in expenditures for flower arrangements that are not considered allowable. KRS 64.850 prohibits fee officials from expending "public funds for any purpose other than that for which they were received..." and all expenditures should be reasonable and necessary expenditures of the Sheriff's office.

We recommend the Sheriff use fee account monies for only reasonable and necessary expenditures of his office and in accordance with the provisions of KRS 64.850. We also recommend the Sheriff deposit personal funds in the amount of \$99 into the 2006 fee account in order to reimburse the account for these disallowed expenditures.

Sheriff's Response: This transaction was completed before the prior year exit, when were informed these expenditures were not allowed. No transactions of this nature have occurred since we were made aware. We disclosed this transaction upfront to the auditor, because we knew based on the prior year exit.

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate of segregation of duties because the functions of receiving, recording, depositing, disbursing, and reconciling cash were not delegated to separate individuals. Only one employee is responsible for all depositing, recording, and reconciling functions for the financial transactions. Good internal controls dictate that the same employee should not handle, record, and reconcile receipts and disbursements due to the risk that misstatements may occur and go undetected. Compensating controls were not documented.

We recommend the Sheriff's office establish adequate segregation of duties or establish and document compensating controls such as:

- The Sheriff could assign the function of depositing cash to other office staff or he could periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. He could document this by initialing the bank deposit, daily checkout, and receipts ledger.
- The Sheriff could reconcile monthly reports to source documents and receipts and disbursements ledgers. This could be documented by initialing the monthly reports and ledgers. The Sheriff could also assign the function of comparing reports to source documents and ledgers to other office staff.

JACKSON COUNTY
TIM FEE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2006
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (CONTINUED)

The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

- The Sheriff could periodically compare the bank reconciliation to the balance in the checkbook. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff could approve all disbursements and sign all checks, which could be documented by initialing invoices.

Sheriff's Response: ok

